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Message Text

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43
ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 PA-01 PRS-01 ERDA-05 AID-05

CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02

INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00

FEA-01 /088 W
---------- 067564
P R 211412Z OCT 75
FM AMCONSUL RIO DE JANEIRO
TO SECSTATE WASHDC PRIORITY 2948
INFO AMEMBASSY BRASILIA
AMCONSUL SAO PAULO
AMCONSUL BELEM
AMCONSUL RECIFE
AMCONSUL SALVADOR
AMCONSUL PORTO ALEGRE

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E.O. 11652: N/A
TAGS : ENRG BR
SUBJECT : FIRST REACTIONS ON "RISK" CONTRACTS

REFERENCE : (A) RIO 3292; (B) BRASILIA 8941

1. SUMMARY: INTERNATIONAL OIL COMPANIES REPRESENTED IN BRAZIL ARE UNDERSTANDABLY PLEASED OVER THE GOB DECISION TO ALLOW SERVICE CONTRACTS WITH FOREIGN COMPANIES FOR EXPLORATION. THEY ARE SAYING LITTLE, HOWEVER, IN THE ABSENCE OF A PRECISE DEFINITION OF TERMS BY THE GOB OR PETROBRAS. HARDLY ANYONE ELSE (ESPECIALLY THE PRESS) CAN RESIST OFFERING SPECULATION OVER THE NATURE OF THE CONTRACTS AND WHICH COMPANIES WILL WIND UP IN EXPLORATION HERE. PETROBRAS HAS YET TO PROVIDE MANY CLUES AS TO WHAT THE CONTRACTUAL TERMS WILL BE AND
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WHICH AREAS WILL BE OPENED UP. IT COULD BE QUITE SOME TIME BEFORE THE DETAILS ARE WORKED OUT AND ANNOUNCED. END SUMMARY.

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2. FROM WHAT WE CAN TELL, MOST INTERNATIONAL OIL COMPANIES ARE INTERESTED IN THE EXPLORATION POSSIBILITIES OPENED BY BRAZIL'S ENORMOUS LAND MASS AND LONG COASTLINE. BUT THOSE FIRMS REPRESENTED HERE ARE TAKING A LET'S WAIT AND SEE POSITION AND ARE BEING TOTALLY NON-COMMITTAL IN THEIR PUBLIC, AND EVEN PRIVATE, COMMENTS. THEIR EVENTUAL POSITION WILL DEPEND ALMOST ENTIRELY ON THE GOB'S CONTRACTUAL TERMS AND THE GEOGRAPHICAL AREAS OFFERED FOR EXPLORATION, WHICH HAVE YET TO BE ANNOUNCED. EVEN WHEN THEY ARE, WHICH ITSELF MAY TAKE SEVERAL MONTHS DEPENDING ON THE EXTENT OF STAFF WORK AND PLANNING PRIOR TO THE PRESIDENT'S ANNOUNCEMENT, IT PROBABLY WILL BE MORE THAN A YEAR BEFORE CONTRACTS CAN ACTUALLY BE NEGOTIATED AND EQUIPMENT BROUGHT ON THE SCENE.

3. FOLLOWING THE PRESIDENT'S ANNOUNCEMENT, SOMEWHAT DIFFERING REPORTS HAVE APPEARED EXPLAINING WHICH ENTITY WOULD BE RESPONSIBLE FOR IMPLEMENTING THE GOB DECISION AND ACTUALLY NEGOTIATING THE "RISK" CONTRACTS. FIRST, THE PRESS STATED THAT PETROBRAS' SUBSIDIARY FOR INTERNATIONAL ACTIVITIES, BRASPETRO, WOULD BE IN CHARGE. BUT THEN IT WAS STATED THAT A COMMISSION HEADED BY PETROBRAS EXPLORATION DIRECTOR HAROLDO RAMOS DA SILVA AND BRASPETRO VICE-PRESIDENT GEONISIO BARROSO (BOTH US-TRAINED GEOLOGISTS) WOULD BE RESPONSIBLE. (GEN ARAKEN DE OLIVEIRA IS THE PRESIDENT OF BOTH ORGANIZATIONS.) ON OCT 14, HOWEVER, PLANNING MINISTER REIS VELLOSO INFORMED A CONGRESSIONAL COMMITTEE THAT A WORKING GROUP COMPOSED OF REPRESENTATIVES OF THE MINISTRY OF MINES AND ENERGY, THE NATIONAL PETROLEUM COUNCIL AND PETROBRAS WOULD DEAL WITH "RISK" CONTRACTS AND MAKE ITS RECOMMENDATIONS SOONEST TO THE GOB. PETROBRAS HAS ANNOUNCED, IN ANY EVENT, THAT NO FOREIGN COMPANY PROPOSAL WILL BE CONSIDERED UNTIL THE GROUND-RULES ARE FULLY LAID OUT.

4. THE ONLY CLUE ON THE TYPE OF POSSIBLE CONTRACTS IS THAT TWO BRASPETRO OFFICIALS APPEARING BEFORE A CONGRESSIONAL COMMITTEE HAVE STATED THAT A CONTRACT SIMILAR TO BRASPETRO'S WITH THE IRAQUI GOVERNMENT COULD SERVE AS ONE MODEL. FYI - BRASPETRO ALSO HAS SERVICE CONTRACTS OR JOINT-VENTURE EXPLOR-
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ATION PROGRAMS IN EGYPT, ALGERIA, LIBYA, COLUMBIA, IRAN (WITH MOBIL) AND IN MADAGASCAR (WITH CHEVRON). WE UNDERSTAND THAT THE ELEMENTS IN THE IRAQUI CONTRACT INCLUDE A SEVEN-YEAR EXPLORATION PERIOD; A 20-YEAR PRODUCTION PERIOD; BRAS-PETRO TO BEAR ALL EXPLORATION EXPENSES IN THE FORM OF A LOAN TO BE REPAID FROM PRODUCTION REVENUES IF AND WHEN THERE IS PRODUCTION; ALL OF THE OIL PRODUCED TO BE OWNED BY THE IRAQUI NATIONAL OIL COMPANY WITH BRASPETRO ENTITLED TO A PORTION OF THE PRODUCTION AT FVAORABLE PRICES. END FYI. ALSO, IT SEEMS LIKELY THAT THE TERMS OF THE CONTRACT WILL VARY WITH RESPECT

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TO THE RISK PREMIUM, DEPENDING ON THE LIKELIHOOD OF OIL BEING FOUND IN A PARTICULAR AREA. A NUMBER OF GOB SPOKESMEN HAVE STATED THAT FOREIGN COMPANIES WHICH MAY EVENTUALLY PRODUCE OIL WILL NOT RECEIVE OIL AS PART OF THE CONTRACTUAL ARRANGEMENT, WHICH IS NOT SURPRISING IN VIEW OF THE COUNTRY'S GREAT NEED FOR PETROLEUM AND IN VIEW OF THE ADVERSE POLITICAL UPROAR WHICH WOULD BE CERTAIN TO ENSUE IF A COMPANY WERE TO BE PERMITTED TO EXPORT A PORTION OF THE PRODUCTION. SOME OBSERVERS BELIEVE THAT THIS COULD RULE OUT COMPANIES SUCH AS ENI (ITALY) AND ELF-ERAP (FRANCE), WHICH WOULD BE MAINLY INTERESTED ON THE BASIS OF SUPPLYING SOME OIL TO THEIR EUROPEAN MARKETS.

5. THE GREATEST SPECULATION HAS BEEN OVER THE AREAS THEMSELVES. INITIAL PRESS REPORTS STATED THAT THE GOB WOULD RESERVE FOR PETROBRAS THE CURRENT PRODUCING AREAS AND THE FOUR MOST PROMISING OFF-SHORE EXPLORATION AREAS: THE MOUTH OF THE AMAZON RIVER; THE NORTH-EAST COASTLINE; THE CAMPOS BASIN OFF THE STATE OF RIO DE JANEIRO; AND THE AREA OFF ESPIRITO SANTO. IT WAS REPORTED IN THE PRESS THAT FOREIGN COMPANIES MIGHT INITIALLY BE OFFERED THE ON-SHORE PARANA BASIN AND CERTAIN AREAS IN THE AMAZON REGION. LOCAL PETROLEUM GEOLOGISTS INFORM US THAT IF THAT COMES TO PASS, FEW COMPANIES WOULD BE INTERESTED, AS PETROBRAS HAS BEEN LOOKING THERE FOR YEARS WITHOUT FAVORABLE RESULTS. MOREOVER, THE PRE-CAMBRIAN GEOLOGICAL FORMATIONS DO NOT HOLD MUCH PROMISE. MORE RECENT PRESS REPORTS HAVE STATED THAT THE MOUTH OF THE AMAZON OFF AMAPA AND THE ESPIRITO SANTO BASIN, LOCATED IN DEEPWATER AREAS WITH STRONG CURRENTS SIMILAR TO THE NORTH SEA, MAY BE OFFERED UP. CAMPOS SLMOST CERTAINLY WILL NOT, SINCE PETROBRAS ALREADY IS MAKING GOOD HEADWAY THERE ON ITS OWN. OUR PETROLEUM SOURCES ARE PRACTICALLY UNANIMOUS IN THEIR OPINION THAT THE MOUTH OF THE AMAZON OFFERS THE BEST
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PROSPECTS IN BRAZIL, BUT EXPLORATION EFFORTS WILL BE DIFFICULT AND COSTLY.

6. RECOMMENDATION: SHOULD INTERESTED US COMPANIES INQUIRE, THE DEPARTMENT MAY WISH TO SUGGEST THAT THE COMPANIES INFORM PETROBRAS BY LETTER OR TELEGRAM OF THEIR INTEREST AND REQUEST THAT THEY BE ADVISED OF THE TERMS OFFERED FOR "RISK" CONTRACTS ONCE THEY ARE ESTABLISHED. ALSO, US FIRMS COULD TOUCH BASE WITH PETROBRAS' NEW YORK OFFICE AT 1221 AVENUE OF THE AMERICAS, 22ND FLOOR. THE DEPT MIGHT POINT OUT THAT COMPANIES SENDING REPRESENTATIVES TO BRAZIL AT THIS TIME SHOULD NOT EXPECT FIRM ANSWERS OR RESULTS UNTIL THE GOB HAS HAD TIME TO FORUMLATE AND ANNOUNCE OPERATIONAL GUIDELINES REGARDING IMPLEMENTATION OF "RISK" CONTRACTS.

7. EMBASSY BRASILIA CONCURS FOREGOING MESSAGE.
DEXTER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, NATIONALIZATION, PETROLEUM, EXPLORATION, BUSINESS FIRMS
Control Number: n/a
Copy: SINGLE
Draft Date: 21 OCT 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975RIODE03399
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750365-0543
From: RIO DE JANEIRO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19751032/aaaabcsp.tel
Line Count: 168
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 RIO DE JANEIRO 3292, 75 BRASILIA 8941
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 04 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 SEP 2003 by BoyleJA>; APPROVED <19 DEC 2003 by CunninFX>
Review Markings:

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Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: FIRST REACTIONS ON "RISK" CONTRACTS
TAGS: ENRG, ACOM, BR, PETROBRAS
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006